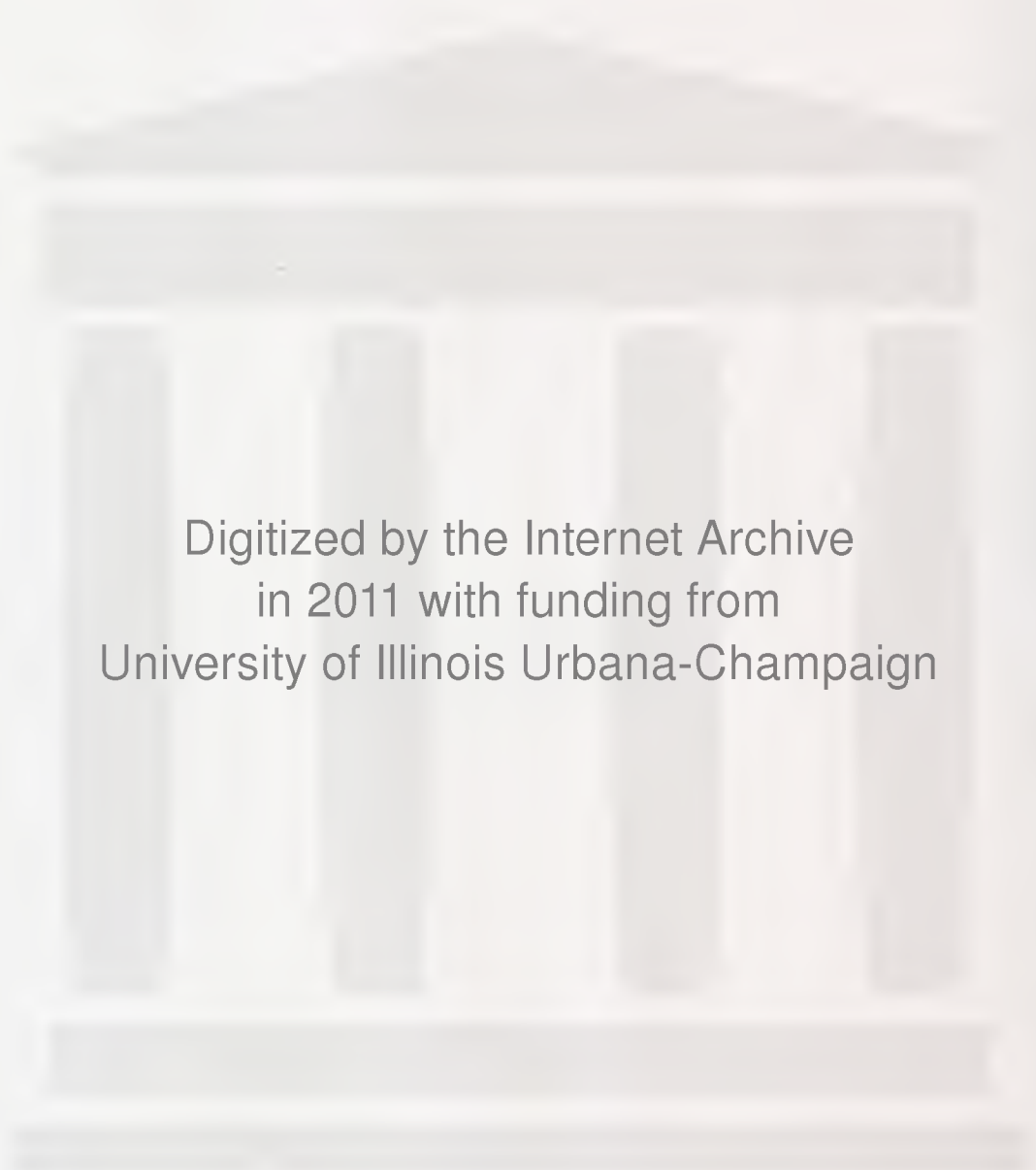




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## Faculty Working Papers

ORGANIZATIONAL DECLINE: A NEGLECTED TOPIC IN  
ORGANIZATIONAL BEHAVIOR

David A. Whetten, Assistant Professor, Department  
of Business Administration

#629

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Summary:

This paper argues that organizational decline has not been adequately examined by organizational scientists because of their preoccupation with organizational growth and its consequences. Examples of this bias in organizational theory on research studies are cited. Two reasons for this emphasis on growth are examined. These are: 1. it reflects prevailing organizational conditions, and 2. it reflects the ideology in our society. Predictions of the emerging era of retrenchment are discussed and their implications for the need to study the management of decline are outlined. An agenda of research, teaching and consulting activities is proposed to rectify our neglect of this topic.

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Organizational decline, though an important and ultimately unavoidable concern of organizations, has received little research attention from organizational scientists. This paper examines some reasons for this neglect, and outlines several research, teaching and consulting projects that address this salient issue. My intent is to stimulate discourse and research on organizational decline processes and their management.

### Decline: A Neglected OB Topic

A review of the literature on organizational metamorphosis yields an extensive bibliography on organizational growth but few materials on decline. Very little is available on the causes of decline, on responses to decline, or on the effects of decline on organizations. Further, while most of the standard organizational research topics, e.g., decision making, conflict, leadership, innovation, motivation, careers, and structural configuration, are affected by significant downward shifts in organizational size or profitability, seldom are these subjects researched in this context.

### Preoccupation With Growth

Why has so little research focused on organizational decline and its effect on other internal processes? The most apparent reason is that organizational behavior theories in general are based on an assumption of organizational growth and hence researchers are preoccupied with studying growth and its effects (Scott, 1974). Three common assumptions in the literature reflect this bias: 1. There is a positive correlation between size and age. Consequently the greatest need of organizations as they mature is to manage the growth process. 2. Size is a desirable organizational

characteristic, i.e., bigger is better. 3. Growth is synonymous with effectiveness.

1. This assumption is clearly evident in the work of Blau and his associates (Blau, 1968, 1970; Blau & Schoenherr, 1971) which considers how organizations maintain coordination under conditions of expansion. As an organization grows more extensive hierarchical structures emerge in order to properly integrate new personnel, product lines, departments, etc. Interest in tracking this growth process produced a spate of articles on administrative ratio (Pondy, 1969; Rushing, 1967; Indik, 1964). While interest in this particular research topic has wanned, the influence of this early work relating size to structure has clearly left its mark on the field. This is evident in Galbraith's (1977) model of organizational design, for example. The basic proposition of this model is that the greater the amount of task uncertainty, the greater the amount of information that has to be processed between decision makers during the execution of the task. One of the major sources of uncertainty (lack of needed information) identified by Galbraith is organizational differentiation. The greater the heterogeneity of tasks, product lines and departments, the greater the need for coordination. In essence this means that an organization needs to overhaul its information processing system at several critical points along the growth curve.

This assumption also underlies much of the organizational development literature. A common justification for OD interventions is that employees become alienated as a function of increasing size. Large operations tend to produce depersonalized leader-subordinate relations, monotonous and specialized jobs, and bureacratic organizational procedures (Bennis & Slater, 1968). Hence, interventions are needed to

transform the climate to that associated with small organizations. The creation of divisions or subsidiaries within a large corporation is one way of restoring the intimate climate of a small organization. Consultants supply numerous other remedies such as team building, climate surveys, conflict resolution techniques, and humanistic management training. The frequent use of a family metaphor in the OD literature suggests a perceived need to transfuse a supportive, trusting, and sharing climate into large machine-like organizations to retard the natural tendency for employee commitment and satisfaction to deteriorate as a function of increasing organizational size and age.

2. Large size is widely lauded as enabling an organization to function more efficiently due to economies of scale and enhancing its ability to absorb the shocks of environmental changes (Kaufman, 1973; Argenti, 1976; Perrow, 1979). These benefits give large organizations a strong competitive advantage. The desirability of large size is clearly reflected in Selznick's Leadership in Administration (1957). "Some organizations are merely organizations--rational tools in which there is little personal investment and which can be cast aside without regret. Others become institutionalized. They take on a distinctive character: They become prized in and of themselves, not merely for the goods or services they grind out. People build their lives around them, identify with them, become dependent upon them. The process of institutionalization is the process of organic growth, wherein the organization adapts to the strivings of internal groups and values of the external society." (Perrow, 1979:186) This striving of mere organizations to become mighty institutions is guided by its administrators, who wish, in Selznick's terms, to be transformed into statesmen in the process.

3. If an organization is getting bigger then it is commonly assumed that it is being managed effectively. Thompson (1967) proposed that organizations attempt to demonstrate their fitness for future action by demonstrating historical improvement, or improvement relative to comparable organizations. The measurement of growth figures prominently in both assessments (Bogue, 1972).

The intertwined relationship between growth and effectiveness is highlighted in system theory since it views an organization as a "living entity." From this perspective, growth is the preferred organizational state since it connotes youth and vigor. A declining organization is treated as ineffective since that is the equivalent of unhealthy in an organic model (Scott, 1974). Katz and Kahn (1966) argue that in order to avoid entropy (the tendency towards randomization) organizations must input more energy than they consume in the production process. This surplus energy is required to maintain a homeostatic balance between the organization and its environment. Organizational decline results unless enough surplus inputs are available to perform internal coordination and management activities and to properly map the complexity in the environment (Buckley, 1967). Since environments are assumed to be increasing in turbulence and complexity (Terryberry, 1968; Emery and Trist, 1965) an organization must grow in order to maintain a steady state relationship with its environment.

Scott (1974) proposes that growth is not only necessary for maintaining effective organization-environment relations but also for effective administration-employee relations. According to a line of reasoning that Scott traces back to 1835 in the management literature,



management uses the surplus from production as currency for buying off internal conflicting interest groups. Frederick W. Taylor is credited with "recognizing that internal consensus is the outcome of growth-created surplus distributed by a scientifically enlightened management as a side payment for harmony of interest" (Scott, 1974, p. 245).

#### Apparent Reasons for Emphasis on Growth

Having highlighted examples of the field's preoccupation with organizational growth it is useful to seek the underlying reasons for this singular focus on one half of the growth and decline development cycle. Two possible explanations will be examined.

1. Organizational theories and research accurately reflect prevailing organizational conditions.

One explanation for Organizational Behavior's strong interest in organizational growth is that it reflects an adaptation of the field's orientation to the real world of organizations. As Boulding notes, "For several generations, a considerable proportion of the human race, and the United States in particular, has enjoyed growth in almost all aspects of social life. We have had continuous growth in population, almost continuous growth in per capita real incomes, in productivity of the overall society, and in the gross national product (GNP). All our institutions and ways of thinking have survived because they were well adapted to an age of rapid growth." (1975, p. 8) As a result of the unprecedented prosperity since World War II, growth characterized American organizations. Until recently most decline was confined to marginal sectors of the economy e.g., small businesses. In this era of the Organizational Society (Presthus, 1962) the predominant pattern

has been: organizations become larger and institutions become more powerful. The factors stimulating organizational growth, especially during periods of economic expansion, are summarized by Boswell.

"The pressure to expand simply to satisfy an apparently insatiable market may be enormous. Moreover, in certain industries there may be conventions as to what is a respectable size, sufficient to impress potential customers, suppliers, or the trade in general. If this is true, then the 'new boys' have an additional motive to grow in order to prove themselves. The desire to reward employees who have loyally stuck with the firm through the difficult years may also play some part. ....[Further,] managerial overheads can be more widely spread over the increased production. Costs per unit of output may fall fairly rapidly with increasing scale....As one [businessman] graphically put it: 'Expansion is dictated to you, you simply try to plan and contain it.'" (1972:64-65)

Consequently, during the past 20 years the major concern of practicing managers has been how to stimulate growth and simultaneously cope with its consequences (Kotter and Sathe, 1978).

A lack of interest in decline during periods of rapid growth is compounded by a lack of opportunity, since there are relatively few declining organizations to examine. Further, those that are declining are such a novelty that they are viewed as aberrations of the normal and dismissed as examples of faulty management. Consequently, managers in these organizations have little to gain, and much to lose, by permitting outsiders to chronicle their organization's decline process. Even if a researcher can gain entrance to a declining organization, by implication the organization can little afford the luxury of sponsoring reflective research. Without financial support it is not likely that researchers will study decline during times of general economic prosperity.

2. The growth bias in organizational research reflects a broader social ideology.

Bendix (1956) argued that theories of administration typically reflect the prevailing ideology of a society. The instrumental use of organizational theories and managerial practices to reinforce dominant societal values and economic advantages has also been emphasized by Marxian theorists such as Heydebrand (1977), and Goldman and Van Houten (1977). Following this logic it is not difficult to see how our organizational theories and research agendas reflect a societal value of growth. This orientation is reflected in three familiar expressions: "Go for the bucks," "Winning is everything," and "Tomorrow will be a brighter day."

"Go for the bucks". Persig (1974) noted that Americans have measured success quantitatively for so long that they are now insensitive to qualitative distinctions. This is reflected in the fact that the status of people and institutions in our country is based on the size of the resource base they control. Scott (1976) has noted the infrequent death of large organizations in our country due to the practice of government rescuing them when crisis strikes. These actions exemplify the societal norm, "We cannot let major organizations die" (p. 58). This practice is notable in recent government subsidies to major companies in the airline, railroad, and tobacco industries. Moreover, such differential treatment becomes a major incentive for small organizations to become large (Selznick, 1957).

There is an analogous relationship between personal status and the size of a person's employer. For instance, young CPA's in the big 8



accounting firms regularly are given job offers by client business firms. However, many turn down these opportunities because of the expected loss of status resulting from the switch to a smaller accounting operation. This concern is also suggested by research documenting that people attribute higher status to presidents of large (compared to small) organizations. Similarly, research on the "square cube" law of organizational scale (Hare, 1959) has shown that size of organization is a better predictor than profitability of the chief executive's salary.

"Winning is everything". Our society inculcates values of determination and self confidence. We are taught that no obstacle should deter us from reaching an objective. Through the Power of Positive Thinking (Peale, 1952 ) we are taught that we can Think and Grow Rich (Hill, 1967). Based on the logic that success can be willed, then failure must reflect a lack of desire. Hence, admitting failure is practically a national taboo. When people must discuss a failure experience (e.g., divorce, business bankruptcy, being fired), it is described as though it were personal success. Personal credit is taken for being: perceptive enough to recognize that a marriage partner was ruining our life; capable enough to keep a business from losing any more than it did before we had sense enough to bail out; so ethical, smart, or experienced that our former employer felt threatened by our presence in the organization. This practice reflects a societal norm that blame must be established for every failure. In contrast, Eastern cultures are far less concerned about affixing personal responsibility for failure. They are more likely to explain failure as the outcome of a malfunction in the "system," the will of the gods, or simply fate (Persig, 1974).

The fear of being blamed for failure increases the likelihood of large scale failures because it reduces management's incentive to drop a new project or product at the first signs of significant trouble. Instead they tend to "pour good money after bad" in hopes of salvaging the operation--and their reputations. A related consequence of our failure paranoia is that managers frequently refuse to admit that their organization is in trouble. This tendency has been borne out by studies of businesses facing financial crises (Smith, 1963; Starbuck and Hedberg, 1977), and school districts experiencing shrinking enrollments (Rodekohr, 1974). When forced to admit the evidence of decline managers tend to label it as merely a period of temporary consolidation which is a forerunner of future growth and expansion (Scott, 1976).

The reluctance of managers to admit that their organization is in a state of decline is evidence of their substantial personal stake in growth. A colleague recently related an illuminating example of this proposition. This experience grew out of his work as a consultant for an electric utility company that services a geographic area experiencing a rapid out-migration and an accompanying decrease in demand for power. However, in a recent company executives meeting the president presented his plans for expanding the structure of the organization. After the meeting when the consultant confronted him with the seeming inconsistency between his optimistic speech and the pessimistic projections, the president replied that without the incentive of a possible promotion to a new Vice President position his middle level managers would become demoralized and quit. Since the upward mobility sought by most managers is not likely to be obtained in a declining organization this president steadfastly presented an image of continued growth and expansion.

Hirschman (1970) has observed that some managers are reluctant to leave a declining organization to which they are morally committed because they feel that they can help minimize the negative consequences of decline. However, Scott (1976) argues that these cases are rare. He argues that competent managers avoid declining organizations. As a result, one of the major reasons it is difficult for organizations to effectively respond to crises is that the best hands are usually the first to jump a sinking ship and it is hard to sign on a new crew for a ship that is taking on water. Consequently, the central issue in organizational decline is not whether contemporary managers are capable of managing decline, but instead, will they be willing to?

"Tomorrow will bring sunshine". Americans are not only very willful, but also highly optimistic. Sutton et al. (1956) have described the American business creed as comprised of four key elements: practicality, austerity, individualism and optimistic affirmation. The roots of this optimism can be traced to every American institution. The family shelters children from failure (e.g., insisting that Johnny be promoted in school even though he can't read); the school instills the expectation that a diploma is the key to the good life; science demonstrates its awesome capabilities via Appollo and Manhattan projects; politicians promise that if elected they will help us strike "new deals", discover "new frontiers", and build a "great society;" religion teaches us that good works will redeem us from our fallen condition; and business convinces many that a new sports car will bring instant relief from the drudgery of every day life.

This optimistic orientation is part of our Western heritage. Nesbit (1969) has noted that the Greeks studied only the growth part of the

growth and decline developmental cycle. Fox (1967) traces the roots of our contemporary optimism even further:

The vision of abundance, of enough to go around, has been part of the spiritual heritage of Western man for thousands of years. In biblical times, men dreamed of a land of milk and honey. In subsequent centuries, utopian writers looked back to a golden age behind them or forward to a golden age ahead....In the eighteenth and nineteenth centuries, changes in technology and in the organization of production provided new grounds for optimism. The theory of economics was created to explain and justify this optimism. In the early nineteenth century, when the problems of industrialism became more obvious, pessimism became the dominant tone of economic thought. Yet even Thomas Malthus, whose arguments persuaded many men of the inevitability of scarcity, believed that moral restraint could lead to a 'great actual population and a state of society in which abject poverty and dependence are comparatively but little known.' The optimism which had sustained social science in the eighteenth century has been reasserted in our time by American scholars....America, a land to which many utopians have, for four centuries, transferred their hopes, was the first nation to develop an economy which gave substance to the dream of an age of plenty (pp. 177-78).

The oil crisis of 1979 presented a recent manifestation of American optimism. Most Americans refused to accept the possibility of a genuine crisis. Instead they accused the government and the oil companies of colluding to create artificial shortages to increase profits. One explanation for this logic is that it was a defense mechanism generated by the American public to preserve their faith in our society of abundance. By blaming the shortages on crooks who were trying to gouge the system for more than their fair share of its bounties, they did not have to admit that the system was at last fundamentally incapable of sustaining exponential growth.



### The Emerging Era of Retrenchment

To this point I have argued that organizational research and theory have been dominated by a growth orientation, and explored some of the sources for this influence. These include the lack of incentive and opportunities to study declining organizations in a rapidly growing economy, and strong societal norms equating personal success with organizational accomplishment, and organizational effectiveness with growth. It appears, however, that countervailing pressures are building in both the economic and social sectors.

Historically there has been a strong moderating effect of organizational size on organization-environment relations. Specifically, the high failure rate among the small was generally due to the action of the large (Perrow, 1979). However, this pattern is beginning to change, as major institutions find it more and more difficult to sustain their high rate of resource utilization and are forced to retrench. The industrial complex has been affected by an aroused public's concern about the rapid depletion of our natural resources (Schumacher, 1973; Commoner, 1976; Meadows, et al, 1972); educational institutions have been forced to cut back due to declining enrollments (Trow, 1975; Green, 1974; Cartter, 1970); and government's legitimacy and resource base have been eroded by a taxpayers revolt over poor services and high taxes (Smith and Hague, 1971; Dvorin and Simmons, 1972; Whetten, 1979; Fenno, 1966).

The fact that a substantial number of old and large organizations are now faced with the need to substantially reduce the scale of their operations, or redefine their outputs, in order to maintain their level of effectiveness, makes it more difficult to explain away organizational

decline as a failure to adhere to the principles of our growth dominated management paradigm. Instead, there are numerous examples of organizations that failed to respond to declining environmental conditions because management was preoccupied with growth (Starbuck et al., 1978).

The effects of these trends are to increase the salience of decline as an organizational phenomenon, and to provide researchers with access to larger numbers of organizations undergoing retrenchment. Recent changes in the cultural values of our society also provide legitimacy for research on organizational retrenchment as we see the values of the "Bigger is Better" era being challenged by the "Small is Beautiful" (Schumacher, 1973) counter culture. Just as many members of large organizations fondly recall when the organization was small and intimate, so too have members of our large and complex society begun to campaign for more humanistic fundamentals. Mathews (1979) has categorized those who argue for revising the axioms of social and economic policies in three categories: Social Ecologists, Structuralists, and Participation-ists.

The Social Ecologists look "at the whole of society and concentrate on its interrelationships and bonding structure. Those within this category would have us restore the viability of fundamental bonds and informal social structures--institutions like families and communities and neighborhoods" (p. 5). Berger and Neuhaus (1977), reflecting this orientation, argue that the mediating structures of family, neighborhood, and voluntary associations serve as buffers between individuals and the mega-structures of society. Value generating and maintaining, they are vital to the social structure of a society. Without these mediating

structures the larger social structure becomes detached from the realities of individual life. To counter the gradual deterioration of these mediating structures in our society Berger and Neuhaus propose reformulating public policy by making mediating structures the principle instruments of social action. For instance, the government might pay a family a stipend each month to take care of its elderly, thus reducing its reliance on institutional care.

The Structuralists express concern about the mechanisms that society employs to carry on its business. Chief among their objectives is bureaucratic reform. Writing about what he calls the "New Public Administration" George Fredrickson argues that the classical bureaucratic norms of efficiency, economy, and centralization should be replaced with more humanistic values that "would be realized in decentralized, democratic organizations which distribute service equitably" (1976). Similar concerns have been expressed by Niskanen (1971), Bennis (1966), and Ostrom (1973). In a major treatise on this topic Miles (1976) describes America as an overdeveloped country, noting that it is a high energy user and materialistically oriented. He argues that the most salient limit to growth will be the American psychic, not the fragile biosphere or our rapidly depleting natural resources. The most important "limits [to growth] are set by the already overstrained capacity of human beings to conceive, design, manage, support, and adapt to extremely complex systems of human interdependence. In short, it is the political limits that are likely to constrain the continuity of physical growth well ahead of all other factors" (p. 2).



If this prediction hold true the outcome will exemplify what Forrester (1971) has labeled the counterintuitive behavior of social systems. Miles (1976) and Fox (1967) have both argued that abundance has within it the seeds of its own destruction. If not used wisely it can precipitate new levels of scarcity as people and institutions fuel the growth machine with their insatiable demands for more goods and services. The result is that the machine finally blows up and its patrons are forced to accept drastically reduced levels of gratification. Another reason why overindulgence tends to be "self-checking" is that it produces an attitude of malaise. The economist Robert L. Heilbroner, reflecting on his work, An Inquiry into the Human Prospect, observed, "The malaise, I have come more and more to believe, lies in the industrial foundation on which our civilization is based. Economic growth and technical achievement, the greatest triumphs of our epoch of history, have shown themselves to be inadequate sources for collective contentment and hope. Material advance, the most profoundly distinguishing attribute of industrial capitalism and socialism alike, has proved unable to satisfy the human spirit ..." (1975:26).

The distinguishing characteristics of the third group of revisionists identified by Mathews, is their emphasis on self determination. The objective of the Participationists is to increase the involvement of citizens in the public planning and decision making processes. The anticipatory democracy movement advocated by Alvin Toffler (1975) exemplifies this orientation. These democrats advocate citizen planning groups, media feedback programs, and coalitions between voluntary associations. While the track record of citizen participation in federal

programs is spotty (Moynihan, 1969; Pressman and Wildavsky, 1973) it is now written into much of the social services legislation and receives wide support across the ideological spectrum.

Regardless of the label used to describe their specific objectives, it is evident that a large part of our country supports a new form of society which is more simple, comprehensible, and tractable. A Harris survey in 1975 which asked people, "If faced with a choice between a more modest lifestyle--buying fewer products, not raising your standard of living, working fewer hours, receiving lower pay--and the prospect of continued inflation, shortages and repeated recession," prompted 77.8 percent of the respondents to support a change in life style. In another Harris poll taken during 1975, which asked people whether they felt that the quality of life in this country had improved, grown worse, or stayed the same, compared with ten years ago, 50 percent replied that it had grown worse, 30 percent said it had improved, and 18 percent said that it had stayed the same. These figures suggest that many people will welcome the change in orientation that will accompany the transition from a growth economy to a steady state economy predicted by economists (Boulding, 1973; Daly, 1973, 1977).

However more than nodding assent to changing values is required before day-to-day organizational practices will be altered. The difficulty of interrupting the ever accelerating organizational growth cycle is illustrated in Molotch's intriguing paper entitled "The City as a Growth Machine" (1976). The author argues that the principle objective of local government is to increase the size of its municipality. Cities compete with one another for the preconditions of growth, e.g., new industry,

by advertizing their most desirable features, such as, a low crime rate, low taxes, a large labor force, and abundant natural resources. Because of this growth orientation, local politics tends to attract those people who have a vested interest in the growth process, such as local businessmen. These people, in turn, reinforce the drive to increase city size so as to enlarge their share of the local resource pool. Molotch points out that the drive for municipal growth continues despite the fact that many of its supporting justifications are false. For instance, growth is frequently justified on the basis that it will increase employment. However, Molotch shows that in fact just the opposite is true--fast growing SMSA's tend to have higher unemployment rates than slow growing SMSA's. While he predicts that the city growth machine will eventually be dismantled by no-growth activists, it is instructive to see the magnitude of their task. To reverse this cycle a new cadre of administrators with a different set of vested interests will have to be cultivated, a new management ideology supporting no-growth needs to be developed, and considerable research on the process of retrenchment must be conducted.

#### An Agenda for Addressing Decline

The Organizational Behavior profession has much to contribute in accomplishing these tasks. However, it is presently ill-prepared to meet this challenge. We have no theories of organizational decline (Hannan and Freeman, 1978); relatively few articles have been published on managing an organization under crisis conditions; we are not prepared to provide data-based recommendations on how to manage the decline process; and the typical OB curriculum does not teach prospective managers

how to cope with decline-induced stress. As an initial step to overcome these deficiencies, following is an agenda of research, teaching, and consulting activities focusing on organizational decline.<sup>1</sup>

### Research

1. The most important task for researchers is to improve the conceptual clarity of organizational decline. In Whetten (1980) I distinguish between decline-as-stagnation and decline-as-cutback. The former is treated in the literature as a reflection of poor management, or non-competitive market conditions; the latter as the consequence of environmental scarcity. In the first case the percent of market decreases; in the second case, the entire market shrinks. Organizational death prompted by stagnation is viewed as suicide, while death due to cutback is treated as homicide. While this distinction removes some of the ambiguity in this term, more work remains to be done before the concept of organizational decline will have the precision necessary for good research.

2. One of the most pronounced effects of decline is that it increases stress (Levine, 1978). Consequently, there is a significant need for more research on management under stressful conditions. It has been demonstrated that managers typically respond to crises by relying on proven programs, seeking less counsel from subordinates, concentrating on ways to improve efficiency, and shunning innovative solutions (Bozeman and Slusher, 1978; Smart and Vertinsky, 1977; Benveniste, 1977; Whetten, 1979). These habitual responses run counter to the prescriptions for self-designing organizations made by Hebberg, et al (1977, 1976), Weick (1977), Starbuck et al (1978), Landau (1973), Toffler, (1970), and Bennis and Slater (1968). Studies of decline-induced-crisis will hopefully help



us understand how to reconcile the actual with the ideal--when deemed appropriate. The research on the physiological and psychological effects of stress, recently reviewed by Schuler (1979), provides a foundation for this research.

3. A key to understanding the management of declining organizations is the sense making process described by Bougon et al (1977). Faced with a crisis managers formulate a causal explanation which in turn dictates the domain of response alternatives they will consider. Boulding (1975) has suggested that managers in different institutional contexts tend to construct different explanations for cut backs which lead to stereotypic responses. For instance, in a therapeutic setting administrators tend to interpret a budget cut as evidence that the legislature does not understand the social significance of the institution's function. As a result, they will likely respond with a strong information campaign with strong moralistic overtones. In contrast, a highly bureaucratic organization is likely to respond by producing statistics showing that the organization is already extremely efficient and therefore does not deserve a cut back.

4. Decline tends to exasperate inter-personal and inter-unit relations within an organization. Levine (1979) argues that resource cut backs sharply increase the incidence of conflict and makes conflict more difficult to resolve by removing the "win-win" option. This suggests the need to develop new techniques for handling conflict in declining organizations. Research on this topic is especially critical since in order to cope with decline an organization needs to discourage its best people from leaving, and the conflict resolution mechanisms

utilized influence an employee's choice between the Exit, Voice, or Loyalty options (Hirschman, 1970). The effects of decline on other internal processes such as goal setting, communications, and leader-subordinate relations also needs to be examined. Yetten (1975) and Scott (1974) have argued that inasmuch as our theories of interpersonal relations were developed based on observations from growing organizations it is necessary to reexamine these theories to see if they need to be recalibrated for declining organizations.

5. The effects of decline can also be observed beyond the organization's boundaries. Interorganizational agreements, organizational network configuration, workers' family relations, and local labor market dynamics are all impacted by retrenchment. An example of an important researchable issue in this area emerges from a study by Hage and Aiken (1967). They postulated that scarce resources would encourage interorganizational collaboration as organizations found it increasingly attractive to pool their resources in order to fund new programs. This has the secondary effect of increasing the density of the encompassing network, which in turn decreases its stability and adaptability (Weick, 1976; Aldrich, 1979). However, Aldrich (1979) and Hannan and Freeman (1978) have also argued that environmental scarcity will increase competition between organizations with similar resource needs. This suggests that the extent to which environmental scarcity will increase network density is a function of the complementarity of network members.

### Teaching

1. The work of Molotch (1976), Boulding (1975) and Sutton et al (1956) establishes the need for a new managerial ideology that supports

no-growth. It is important that future managers be taught that retrenchment does not necessarily reflect failure. Unfortunately strategic retreat runs counter to the American business ethic (Sutton, et al, 1956). A common error committed in the management of crises is to continue pursuing a chosen course of action despite evidence that it is ineffective. Some historians argue that Hitler's belated disengagement from his mired Russian campaign was a turning point in the war. In contrast, Rommel won the title "The Desert Fox" for his brilliant use of strategic retreat against Allied forces in Africa.

2. It is not enough to tell students how they should react in a crisis situation, we must also provide opportunities for practice. By participating in crisis simulations students can couple knowledge learning with skill development. Typical management cases and exercises do not simulate crises conditions and therefore do not provide opportunities for this type of practice. The development of new materials couched in the context of decline will sensitize students to the consequences of relying on habitual responses under stress and help them develop alternative response patterns. As an example, Whetten (1979) has argued that public administrators have tended to interpret the taxpayers revolt as a problem of governmental inefficiency rather than ineffectiveness. Consequently, they tend to respond by "trimming the fat" off existing programs, rather than examining alternative service delivery mechanisms, or a different program mix (Cyert, 1978). The use of simulations will help the next generation of administrators explore these alternative responses to decline.



### Consulting

1. There is a substantial need for a cadre of consultants that can aid practicing administrators during periods of retrenchment by pointing out decision making errors and suggesting novel alternatives. Boulding (1978) has noted that in our growth oriented economy the experiences of declining organizations have not been widely distributed in the management community. Hence, an administrator forced to retrench does not have a compendium of "lessons learned" to direct his/her actions. Consultants who are experts in retrenchment management can partially make up for this deficiency in the management literature.

2. Consultants can also help organizations prepare for a crisis. Smart and Vertinsky (1977) propose that organizations should have a set of emergency procedures for managing crises. For instance, they suggest alternative decision making structures for steady state and crisis conditions. A central crisis corpe should be identified that is trained to deal with various types of catastrophes. This group would periodically conduct crisis simulations, or drills. These serve the the dual function of giving the staff experience in implementing emergency procedures, and unfreezing complacent atttitudes. Consultants can serve a key role in these activities.

### Conclusion

Twenty years ago managing growth was the dominant organizational concern. This stimulated considerable research and theory development on growth related issues which helped administrators rountinize the growth process. During the 1970s managing decline has emerged as a

significant organizational concern and the Organizational Behavior profession is ill-prepared to provide insights or technical assistance. The objective of this paper has been to point out the urgent need for the OB profession to retool its theoretical orientations, research agendas, and teaching priorities so that they more closely reflect our changing environment.

Footnote

<sup>1</sup>Some of these items are discussed in greater detail in Whetten (1980).

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